

## Message Text

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ACTION EUR-12

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PA-01 RSC-01 PRS-01 SP-02 SS-15 USIA-06 /070 W

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R 270925Z JAN 75  
FM USMISSION NATO  
TO SECSTATE WASHDC 9756  
AMEMBASSY BELGRADE

C O N F I D E N T I A L SECTION 1 OF 2 USNATO 0416

E.O. 11652: GDS  
TAGS: ECON, EFIN, YO, NATO  
SUBJECT: ECONADS: REPORT ON RECENT TRENDS IN THE YUGOSLAV ECONOMY

REF: USNATO 0387

FOLLOWING ARE DANISH COMMENTS ON DRAFT REPORT ON YUGOSLAV ECONOMY  
(AC/127-WP/413 AND CORRIGENDUM) WHICH DANISH ECONAD OFFERED TO  
CIRCULATE AT JANUARY 23 ECONOMIC COMMITTEE MEETING. BEGIN TEXT

### GENERAL COMMENTS

THE DANISH AUTHORITIES HAVE FOUND THE PAPER TO BE A  
SUBSTANTIAL AND BY AND LARGE PRECISE ANALYSIS OF THE  
TRENDS IN THE YUGOSLAV ECONOMY. THEY AGREE WITH THE  
SUGGESTION THAT THE INTRODUCTORY PARAGRAPH, "SUMMARY  
AND CONCLUSIONS", BE PUT TO THE COUNCIL AS THE MAIN  
DOCUMENT ALTHOUGH THEY WOULD LIKE TO SEE IT SUPPLEMENTED  
BY SOME FURTHER DETAILS, AND THEY FIND IT IMPORTANT  
THAT THE REST OF THE WORKING PAPER WHICH IS MORE  
NUANCED AND THROWS LIGHT ON SEVERAL OF THE STRUCTURAL  
PROBLEMS SPECIFIC TO YUGOSLAVIA IS ALSO PUT TO THE  
COUNCIL, BUT AS AN ANNEX.

ON THIS BACKGROUND OF GENERAL APPROVAL OF THE WORKING  
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PAPER, MY AUTHORITIES WOULD LIKE TO MAKE SOME OBSERVATIONS:

THEIR MAIN OBJECTION IS THAT THE ANALYSIS ONLY TO A  
SMALL EXTENT TAKES INTO ACCOUNT THAT CERTAIN NEGATIVE

FEATURES IN THE ECONOMIC DEVELOPMENT ARE CAUSED DIRECTLY BY THE STRUCTURE OF THE YUGOSLAV SOCIETY. THE LEVEL OF INFLATION AS WELL AS THE CONTINUOUSLY RISING DEFICIT OF THE BALANCE OF PAYMENT ARE ONLY PARTLY DUE TO EXTERNAL FACTORS. THE PAPER CURRENTLY POINTS OUT IN PARA 4 THAT THE LACKING STRUCTURAL BALANCE IN THE INDUSTRIALIZED AND AGRICULTURAL SECTORS IS ONE OF THE MOST IMPORTANT FACTORS IN THE INFLATION AND THE TRADE DEFICIT, BUT IT SHOULD ALSO BE MENTIONED THAT THE YUGOSLAV SELF MANAGEMENT SYSTEM AS LAID DOWN IN THE CONSTITUTION OF 1974 IS ONE OF THE REASONS. THIS SYSTEM WHICH IS A POLITICAL SACRED COW DECENTRALIZES THE ECONOMIC STEERING PROCESS TO A DEGREE WHICH COMES VERY CLOSE TO A FRAGMENTATION AND IS THEREFORE HARDLY EFFECTIVE IN CARRYING OUT MEASURE NECESSARY TO FIGHT A RECESSION. EXPERIENCE SHOWS THAT THIS SYSTEM IS NOT CONDUCIVE TO RESPECT FOR AGREEMENTS ON WAGES AND PRICE POLICIES AND LEAVES ONLY SMALL POSSIBILITIES FOR THE FEDERAL AUTHORITIES TO INTRODUCE STABILIZING MEASURE. ADD TO THIS THE LACK OF FLEXIBILITY IN ADJUSTING TO THE FLUCTUATIONS IN THEIR ECONOMY: DURING A RECESSION IT IS DIFFICULT TO REDUCE THE PRODUCTION, AND IT IS IMPOSSIBLE TO DISMISS WORKERS AS THEY OWN THE FACTORIES. THE YUGOSLAV AUTHORITIES MUST THEREFORE RESORT TO PRICE INCREASES, RESULTING IN OVERPRODUCTION AND INFLATION. IT IS IMPORTANT TO NOTE THESE STRUCTURAL WEAKNESSES AS THEY MAY IN A DETERIORATING ECONOMIC SITUATION HAVE INTERNAL AND PERHAPS THEREBY CONSEQUENCES IN THE FOREIGN POLICY. FORCED BY A VULNERABLE YUGOSLAV ECONOMY AND BY THE DIFFICULTIES IN MAKING THE NEW SELF MANAGEMENT SYSTEM WORK, THE PRESENT LEADERSHIP FINDS ITSELF UNDER GROWING PRESSURE FROM CENTRALISTIC AND NEOSTALINISTIC FORCES WHO, AT BEST, WILL IMPOSE UPON IT A MORE RIGORISTIC COURSE AGAINST OPPOSITIONAL TRENDS, AND, AT WORST, CAN POSE A DIRECT THREAT TO THE PRESENT LEADERSHIP AND THE SELF MANAGEMENT SYSTEM. THE CONCLUSIONS IN PARA 11 ARE THEREFORE NOT INCORRECT, CONFIDENTIAL

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BUT PERHAPS NOT SUFFICIENTLY NUANCED.

SPECIFIC COMMENTS TO "SUMMARY AND CONCLUSIONS"  
(PARAS 1-11

1. WE SUGGEST THAT PARAS 2 AND 3 BE INTERCHANGED AND THAT THE PARAGRAPH ON INFLATION AND ITS CAUSES BE ELABORATED A BIT.

RE PARA 3.

IT MAY BE NOTED THAT THE POLICY OF ECONOMIC EXPANSION HAS CONTINUED THROUGHOUT 1974 WITH A GROWTH RATE OF

ABOUT 10 PCT COMPARED TO 1973. WHEN IT IS MAINTAINED THAT THE EXPANSION POLICY WAS STARTED TOO EARLY, IT SHOULD BE ADDED THAT THIS WAS A POLITICAL NECESSITY IN AN ONLY PARTLY DEVELOPED COUNTRY WHERE THE RATE OF UNEMPLOYMENT IN SPITE OF A SATISFACTORY RISE IN THE NUMBER OF EMPLOYED OF 5,4 PCT IS STILL ABOUT 9 PCT. ONE OF THE REASONS FOR THIS IS THE CESSATION OF IMPORT BY WESTERN EUROPE OF YUGOSLAV MANPOWER.

2. THE DEFICIT ON THE BALANCE OF TRADE HAS IN 1974 BEEN OF A MAGNITUDE OF 3,8 BILLION DOLLARS (PARA 7). THE ECONOMIC PLANS FOR 1975 FORESEE A 10 PCT GROWTH IN EXPORTS WHILE THE IMPORT IS ONLY ALLOWED TO RISE BY 4 PCT WITH A VIEW TO ADJUSTING THE IMBALANCE. IT IS, HOWEVER, DOUBTFUL WHETHER THESE CALCULATIONS WILL PROVE VALID.

3.

RE PARA 8.

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C O N F I D E N T I A L SECTION 2 OF 2 USNATO 0416

WE THINK IT IS STILL TOO EARLY TO JUDGE WHETHER THE CONSIDERABLE RISE IN THE TRADE WITH THE COMECON COUNTRIES WILL BE A LASTING PHENOMENON. THIS WILL I.A. DEPEND ON THE ECONOMIC DEVELOPMENT AND MARKET CONDITIONS IN WESTERN EUROPE. SOME SUDDEN RESTRICTIONS WITH SEVERE REPERCUSSIONS FOR YUGOSLAVIA'S EXPORT TO EEC MARKETS HAVE PROMPTED CONSIDERATIONS ABOUT "THE GREATER STABILITY" OF THE COMCON MARKET AND EASIER COMPETITION THERE FOR YUGOSLV PRODUCTS. THIS SHOULD, HOWEVER, NOT BE TAKEN TO IMPLY A BASIC REORIENTATION. YUGOSLAVIA DOES NOT WANT TO BE ECONOMICALLY DEPENDENT ON EASTERN EUROPE, BUT THEY MAY CONSIDER THE INCREASED TRADE WITH THE

COMECON COUNTRIES AS A USEFUL COUNTER-MOVE AGAINST  
WESTERN EUROPE'S TRADE-POLICY VIS-A-VIS YUGOSLAVIA.

4.

RE PARA 9.

THE INVIDIBLE YUGOSLAV EARNINGS IN 1974 HAVE BEEN  
LARGER THAN EXPECTED. THE REMITTANCES FROM YUGOSLAVS  
WORKING ABROAD AND FROM THE TOURIST TRADE HAVE GROWN  
AT AN AVERAGE OF 18PCT AND 11 PCT RESPECTIVELY. ACCORDING  
TO THE GOVERNOR OF THE NATIONAL BANK (END OCTOBER 1974),  
THE FOREIGN CURRENCY RESERVES AT THE END OF THE YEAR  
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SHOULD AMOUNT TO 1,4 BILLION DOLLARS WHICH IS MORE  
THAN EXPECTED.

5.

RE PARA 10.

WHEN MENTIONING YUGOSLAVIA'S POSSIBILITIES OF OBTAIN-  
ING LOANS, IT SHOULD BE STATED THAT YUGOSLAVIA WILL  
PROBABLY IN THE LONG RUN PROFIT ECONOMICALLY AND  
FINANCIALLY FROM ITS PRO-ARAB AND NON-ALIGNMENT POLICY.

YUGOSLAVIA HAS NOT ONLY BY THE MEANS OF LONG-TERM  
CONTRACTS, AMONG OTHERS WITH ARAQ, BEEN ABLE TO FINANCE  
ITS OIL IMPORTS BY CREDITS, BUT HAS ALSO OBTAINED A  
LARGE INVESTMENT LOAN FROM KUWAIT AND HAS IN 1974  
MANAGED TO GET IMPORTANT INVESTMENT PROJECTS IN THE  
ARAB WORLD AS YUGOSLAVIA'S PART OF THE RECYCLED PETRO-  
DOLLARS. END TEXT.  
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